

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

Regular Executive Committee Meeting

July 18, 2006

12:30 PM - 2:30 PM
House Hearing Room C
Olympia

AGENDA

- 12:30 PM **(A) Approval of Minutes**
- 12:35 PM **(B) Direction on Day's Agenda**
- 1:15 PM **(C) September Committee Meeting**
- Recommendation to PFC
 - \$150,000 death benefit
 - Service credit purchase due to injury
- 2:15 PM **(D) Constituent Correspondence**
- 2:30 PM **(E) Adjourn**

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

***Representative Bill Fromhold,**
Vice-Chair

Leland A. Goeke
TRS and SERS Employers

Robert Keller
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

***Glenn Olson**
PERS Employers

***Senator Craig Pridemore,**
Chair

Diane Rae
TRS Actives

***J. Pat Thompson**
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

*** Executive Committee**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 786-6140. TDD 1-800-635-9993.

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Select Committee on Pension Policy

2006 Interim Work Plan

(April 25, 2006)

May 16, 2006

WSIB update
Update on other states' pensions
Pension funding / accounting reforms

June 20, 2006

Dual membership
\$150,000 death benefit
Service credit purchase due to injury

July 18, 2006

Post retirement employment
Plan 1 funding method
Gain-sharing

August 22, 2006

No meeting

September 19, 2006

Recommendation to PFC
\$150,000 death benefit
Service credit purchase due to injury

October 17, 2006

Dual membership
Gain-sharing
Plan 1 funding method

November 21, 2006

2005 actuarial valuation report
PSERS membership report
Gain-sharing

December 12, 2006

2007 legislative proposals

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

REGULAR EXECUTIVE COMMITTEE MEETING DRAFT MINUTES

June 20, 2006

The Select Committee on Pension Policy met in House Hearing Room C, Olympia, Washington on June 20, 2006.

Executive Committee members attending:

Senator Pridemore, Chair	Sandra Matheson
Elaine Banks	Glenn Olson
	J. Pat Thompson

Other Committee members attending:

Lois Clement	Robert Keller
Representative Crouse	Corky Mattingly
Senator Fraser	Senator Schoesler

Senator Pridemore, Chair, called the meeting to order at 12:35 p.m.

(A) Approval of Minutes

It was moved to approve the May 16, 2006, Executive Committee Draft Minutes. Seconded.

MOTION CARRIED

(B) Direction on Day's Agenda

Dual Membership

Laura Harper, Senior Research Analyst, Legal, reviewed the "Dual Membership" issue. Discussion followed.

\$150,000 Death Benefit

Darren Painter, Research Analyst, reviewed the "\$150,000 Death Benefit" issue. Discussion followed.

Service Credit Purchase Due to Injury

Bob Baker, Senior Research Analyst, reviewed the "Service Credit Purchase Due to Injury" issue. Discussion followed.

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

***Representative Bill Fromhold,**
Vice-Chair

Leland A. Goeke
TRS and SERS Employers

Robert Keller
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

***Glenn Olson**
PERS Employers

***Senator Craig Pridemore,**
Chair

Diane Rae
TRS Actives

***J. Pat Thompson**
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

*** Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

(C) July Committee Meeting

“Post-retirement Employment,” “Plan 1 Funding Method” and “Gain-sharing” will be reported on at the July 18th Full Committee meeting.

(D) Constituent Correspondence

Matt Smith, State Actuary, reported on the “Constituent Correspondence.”

The meeting adjourned at 2:00 p.m.

Select Committee on Pension Policy

Direction on Today's Agenda

(July 11, 2006)

Item #		Next Scheduled Hearing
(2)	Post retirement employment	<u>None</u>
	1. Is this program meeting the state's needs? Are the state's needs sector-based or are they more broad-based?	
	2. Distinguish 2004 and 2005 SCPP recommendations.	
	3. What are the specifics of a 2006 recommendation? Continue along a similar path or look at new options?	
	4. Grapple with issue this interim or in the future?	
(3)	Plan 1 funding method	<u>October</u>
	1. Is the Plan 1 funding method serving its intended purpose?	
	2. Will it produce a reasonable and manageable schedule of contributions?	
	3. Is the current method too backloaded?	
	4. Should Plan 1 benefit improvements have a separate funding policy?	
	5. How do you balance the need to fund unfunded prior costs with the need for benefit improvements?	
(4)	Gain-sharing	<u>October</u>
	1. See Evaluation questions in PowerPoint.	

Select Committee on Pension Policy

September 19th – Meeting Planner

(July 11, 2006)

FULL COMMITTEE AGENDA

- (1) Recommendation to PFC
- (2) \$150,000 death benefit
- (3) Service credit purchase due to injury
- (4) Adjourn

EXECUTIVE COMMITTEE AGENDA

- (A) Direction on day's agenda
- (B) October committee meeting
 - Dual membership
 - Gain-sharing
 - Plan 1 funding method
- (C) Constituent correspondence
- (D) State Actuary evaluation
- (E) Adjourn

Burkhart, Kelly

From: Eby, Wilma
Sent: Friday, June 30, 2006 8:21 AM
To: debbiee@co.skagit.wa.us
Subject: Rule of 90 and Gain Sharing

Dear Debbie,

Thank you for sharing your concerns with Governor Gregoire about the Rule of 90 and gain sharing for PERS Plan 3 members. I am responding on her behalf.

The Select Committee on Pension Policy (SCPP) reviews pension policy changes and forwards recommendations to the legislature for consideration. The committee is continuing to discuss the topics of Rule of 90 and gain sharing. I will forward your comments to the committee for inclusion in their discussions.

Thank you very much for sharing your thoughts. Please feel free to follow the committee's activities through the Office of the State Actuary's Web site at <http://osa.leg.wa.gov/>.

Sincerely,

Sandy Matheson, Director
Department of Retirement Systems

cc: Governor Gregoire

7/6/2006

Burkhart, Kelly

Subject: FW: GOV'S E-MAIL REFERRAL #654630

-----Original Message-----

From: Ehrlich, Cale

Sent: Monday, June 19, 2006 9:48 AM

To: Eby, Wilma (DRS)

Subject: GOV'S E-MAIL REFERRAL #654630

REFERRAL DIRECTIONS (For Complete Directions Refer to Citizen Response Team Guidelines)

Referred To: DEPARTMENT OF RETIREMENT SYSTEMS

Action:

RESPOND AS YOU DEEM APPROPRIATE (LETTER, PHONE CALL, DIRECTOR SIGNATURE, ETC.) PLEASE RETURN THE ORIGINAL LETTER, THE REFERRAL SHEET, AND COPY OF REPLY TO CONSTITUENT SERVICES. IF YOU HAVE REPLIED BY EMAIL, PLEASE SEND US A COPY OF YOUR REPLY BY EMAIL.

Comments:

Rule of 90

Is there anyway that we can help

ensure that "the Rule of 90" gets enacted, while keeping DRS solvent?

Such as contributing more. Also, the literature we received, before moving to PERS3, stated "Gain-sharing" was a guarantee, not an option, the state may or may not choose to give. Is moving back to PERS2 and option if "gain-sharing" is repealed?

DUE BACK: 7/3/2006

Referred By: Cale Lee Ehrlich, Constituent Services

From: Ensley Debbie

7/6/2006

July 6, 2006

Chris Evans
6546 Park Point Way Northeast
Seattle, Washington 98115

Dear Chris,

Thank you for contacting the Governor about police pensions and the Seattle Post-Intelligencer story. The Governor asked that I respond to you directly.

As reported by the PI, the only state law that currently addresses pensions and criminal convictions is RCW 41.26.061, which prohibits a public employee convicted of a felony from drawing a disability pension when the disability was caused by his or her own criminal conduct. When a member meets the eligibility requirements of the pension plan, we must provide a retirement benefit. A change to the current law would be required to modify the existing eligibility criteria. The Select Committee on Pension Policy (SCPP) reviews pension policy changes and forwards recommendations to the legislature for consideration. I will forward your comments to the committee.

Again, thank you for taking the time to share your thoughts. If you have more questions or need additional information, please don't hesitate to contact Dave Nelsen, Assistant Director for Retirement Services, toll-free at 800-547-6657, extension 47304

Sincerely,

Sandra J. Matheson
Director

cc: Governor Gregoire
Senator Ken Jacobsen
Representative Jim McIntire
Representative Phyllis Kenney

Burkhart, Kelly

Subject: FW: GOV'S E-MAIL REFERRAL #649861

Attachments: Chris Evans 0606.doc



Chris Evans
0606.doc (24 KB)

-----Original Message-----

From: Eby, Wilma (DRS) [mailto:WilmaE@DRS.WA.GOV]

Sent: Thursday, July 06, 2006 5:01 PM

To: Burkhart, Kelly

Subject: FW: GOV'S E-MAIL REFERRAL #649861

Another response that mentions forwarding comments to the SCPP. Wilma

-----Original Message-----

From: Gregg, Angela

Sent: Friday, June 23, 2006 4:15 PM

To: Eby, Wilma (DRS)

Subject: GOV'S E-MAIL REFERRAL #649861

REFERRAL DIRECTIONS (For Complete Directions Refer to Citizen Response Team Guidelines)

Referred To: DEPARTMENT OF RETIREMENT SYSTEMS

Action:

RESPOND AS YOU DEEM APPROPRIATE (LETTER, PHONE CALL, DIRECTOR SIGNATURE, ETC.) PLEASE RETURN THE ORIGINAL LETTER, THE REFERRAL SHEET, AND COPY OF REPLY TO CONSTITUENT SERVICES. IF YOU HAVE REPLIED BY EMAIL, PLEASE SEND US A COPY OF YOUR REPLY BY EMAIL.

Comments:

Issue: Pensions

A report in today's Seattle P I says that police pensions are still being paid to officers that were convicted of crimes. These pensions should be discontinued while they are incarcerated. Will you take action to correct this misappropriation of government pension funds?

cc: Representative Jim McIntire

cc: Representative Phyllis Kenney

cc: Senator Ken Jacobsen

DUE BACK: 7/7/2006

Referred By: Angela Gregg - Manager Constituent Relations

CONTACT INFORMATION (Log: 649861)

Contact Date: 5/12/2006

Contact Type: Hot Line

From: Chris Evans
6546 Park Point Way NE
Seattle, WA 98115



WASHINGTON
COURTS

Superior Court Judges' Association

Michael Cooper, President (06-07)
Kittitas County Superior Court
205 W 5th Avenue, Suite 207
Ellensburg, WA 98926-2887
(509) 962-7533 FAX: (509) 933-8223

Vickie Churchill, President-Elect (06-07)
Island/San Juan Counties Superior Courts
PO Box 5000
Coupeville, WA 98239-5000
(360) 679-7361 FAX: (360) 679-7383

Michael Trickey, Immed. Past President (06-07)
King County Superior Court
516 Third Avenue, Room C-203
Seattle, WA 98104-2361
(206) 296-9265 FAX: (206) 296-0986

Gordon Godfrey, Secretary (06-07)
Grays Harbor County Superior Court
102 Broadway Avenue W
Montesano, WA 98563-3621
(360) 249-6363 FAX: (360) 249-6381

Chris Washington, Treasurer (06-07)
King County Regional Justice Center
401 4th Avenue N, Room 2D
Kent, WA 98032-4429
(206) 296-9111 FAX: (206) 205-2585

Suzanne Barnett, District One Trustee (06-09)
King County Superior Court
516 Third Avenue, Room C-203
Seattle, WA 98104-2361
(206) 296-9213 FAX: (206) 296-0986

Jay White, District One Trustee (04-07)
King County Regional Justice Center
401 4th Avenue N, Room 2D
Kent, WA 98032-4429
(206) 296-9251 FAX: (206) 205-2585

Ronald E. Culpepper, District Two Trustee (05-08)
Pierce County Superior Court
930 Tacoma Avenue S, Room 534
Tacoma, WA 98402-2108
(253) 798-6640 FAX: (253) 798-7214

Alan Hancock, District Three Trustee (06-09)
Island/San Juan Counties Superior Courts
PO Box 5000
Coupeville, WA 98239-5000
(360) 679-7361 FAX: (360) 679-7383

Richard Brosey, District Four Trustee (06-09)
Lewis County Superior Court
345 W Main, 4th Floor
Chehalis, WA 98532-4802
(360) 740-1172 FAX: (360) 740-2603

Donald W. Schacht, District Five Trustee (05-08)
Walla Walla County Superior Court
PO Box 836
Walla Walla, WA 99362-0259
(509) 527-3229 FAX: (509) 527-3214

T. W. Small, District Six Trustee (04-07)
Chelan County Superior Court
PO Box 880
Wenatchee, WA 98807-0880
(509) 667-6210 FAX: (509) 667-6588

July 13, 2006

Mr. Matthew Smith
State Actuary
Office of the State Actuary
PO Box 40914
Olympia, WA 98504-0914

Dear Mr. Smith:

Thank you for including the representatives of the judiciary who have worked on the judges' retirement legislation in your recent email letter. As President of the Superior Court Judges' Association, I am writing to amplify on your letter from the judges' perspective.

As you know, we very much appreciate all of your efforts and those of your staff in developing the judges' retirement proposal and in working with us in that process. We also appreciate working with you as well as with Assistant Director Dave Nelson of DRS and other DRS staff since the issue of the buy back surfaced after the legislative session ended.

The proposal that was approved by the Select Committee on Pension Policy contained on the second page the data and figures provided to us in the April 14, 2005 document prepared by your office (referred to as the internal working document in your recent letter). Working closely and collaboratively with you and your staff, we have no question that the preparation of the written proposal was done with the utmost effort to communicate clearly. Both before and after its approval by the Select Committee on Pension Policy, we shared the proposal with judges around the state.

After the close of the legislative session when the issue regarding the buy back arose, we sought out the advice of actuaries at Milliman in an effort to understand the issue and to seek solutions that would be fair, both to the state and to the judges. Milliman's letter identifies two additional methods that may be considered by the Director in implementing the legislation and we believe that the first method more closely approximates our understanding of

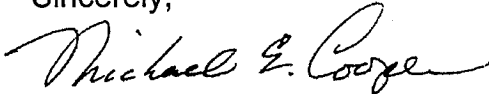
Letter to Mr. Matthew Smith
July 13, 2006
Page 2 of 2

the judges' proposal as approved by the Select Committee. We believe our understanding of the intent of the legislation was shared by legislators including the Select Committee chair and bill sponsor, Representative Bill Fromhold. These methods are also consistent with the proposal language (buy back) approved by the Select Committee and are similar to many historical buy back provisions (rather than the "buy forward" method of purchasing an annuity).

While it is very unfortunate, the judge representatives working with you on the retirement legislation believe that the miscommunication or misunderstanding occurred despite mutual efforts to communicate clearly. We share Director Sandy Matheson's hope and expectation that an agreement can be reached on the method to implement the legislation and are committed to participating with her office in any way she deems appropriate to achieve that end.

I would appreciate you sharing this email letter with the members of the Select Committee on Pension Policy and of the Legislature who received your email letter. Thank you again for all your efforts and those of your staff in working on the judges' retirement benefit. We know you worked with us with the utmost good faith and professionalism.

Sincerely,

A handwritten signature in cursive script, reading "Michael E. Cooper".

Michael Cooper
President

scja/president's correspondence/cooper/ltr to state.actuary.doc

cc: Judge Leonard Costello
Judge Deborah Fleck
Judge Michael Heavey
Judge Michael Trickey
Tom Parker, Lobbyist



WASHINGTON STATE LEGISLATURE
Office of the State Actuary

July 7, 2006

TO: Select Committee on Pension Policy (SCPP) Members
Via E-Mail

FROM: Matthew M. Smith, FCA, MAAA, EA
State Actuary

A handwritten signature in black ink, appearing to read "Matthew M. Smith".

**SUBJECT: PAST SERVICE CREDIT COST WITHIN OPTIONAL PROGRAM TO
ENHANCE JUDGES' BENEFIT MULTIPLIER**

One of the themes of the 2006 pension legislation was "member flexibility at member cost." As you will recall, three bills were passed that allowed members to purchase service credit with members paying the full actuarial cost: "air time" for all plans, Teachers' Retirement System Plans 2/3 out-of-state service credit, and past service credit for judges choosing to participate in an optional program for an enhanced benefit multiplier. All three of these bills required that members pay, as their cost for the relevant service credit, the actuarially equivalent value of the increase in their benefit. How that member cost is calculated has become an issue under the new law for judges.

As you are aware, the Office of the State Actuary (OSA) met with representatives of the Superior Court Judges' Association and their lobbyist during the last interim about their proposal to enhance the judges' benefit multiplier. In response to a request for a "ball park estimate" of costs, and in order to help define the preliminary proposal, our office provided a one-page handout at an OSA meeting with the judges' representatives. The handout was an internal working document that was used for discussion purposes at this meeting. This communication was very preliminary and was generated before there was any written proposal or bill draft on this issue.

I am writing in order to put the handout into context because I am concerned that it has been misused and misrepresented and it is still being cited as some kind of "mistake" in calculations by our office. At the time it was generated, the judges' proposal was not fully defined. The handout provided rough estimates regarding the increased Public Employees' Retirement System Plans 1 and 2/3 liabilities that would be generated if an option to purchase past service credit at the higher multiplier was offered as part of the proposal. These plan-wide costs were expressed in several ways: as total increases to the plans and as averages. The averages were expressed as both per-member and per-year-of-service costs. Their purpose was to estimate the total cost impact on the plans, using plan assumptions.

2100 Evergreen Park Drive SW, Suite 150

PO Box 40914

Olympia, WA 98504-0914

360.786.6140

Fax: 360.586.8135
TDD: 1.800.635.9993

E-Mail: actuary.state@leg.wa.gov

At no time were these averages ever represented by the OSA as numbers that could be used as multipliers to compute an individual's service credit costs. Yet apparently, this is how they were used by the proponents when communicating the proposal to the judges at large. When I became aware of this misuse of the original communication, I e-mailed Judge Fleck, Judge Heavey, and Department of Retirement Systems (DRS) to clarify that using "average costs per year of service" is not an appropriate method to determine the per-person costs. I explained that averages could not represent an accurate estimate for a significant portion of the covered population, and that actual costs per member vary significantly by the member's age at purchase. Apparently, however, the plan averages in the handout were used to estimate service credit costs for individual judges, resulting in discrepancies between some judges' expectations and resulting costs under the new law.

As I stated in my letter to Judge Fleck and Judge Heavey, the OSA is working with DRS to implement a method that will determine the actual cost per member according to the provisions of the law and accepted actuarial standards of practice. In the meantime, I have become acutely aware of the dangers that can arise when providing "ballpark estimates," especially when expressed as per-person averages. I also recognize that what is clear to actuaries may not often be clear to others. Therefore, I am using this experience as an opportunity to improve the clarity of our future communications and their use.

Thank you for your attention and please contact me directly, either by e-mail (smith.matt@leg.wa.gov) or phone (360-786-6140), if you have any questions or concerns about this matter.

cc: Judge Leonard Costello
Judge Deborah Fleck
Judge Michael Heavey
Judge Michael Trickey
Tom Parker, Lobbyist
State Actuary Appointment Committee:
Senator Margarita Prentice
Senator Joseph Zarelli
Representative Gary Alexander
Representative Helen Sommers